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ABSTRACT

This document discusses major issues in urban school finance. It has been developed around four major sections. First, it reviews the role of the states in urban school finance, using published materials and documents from the Education Commission of the States. Second, it discusses recent developments in urban school finance litigation dealing with inequalities in revenue distribution and provides an up-to-date synopsis of the role of the courts in that regard. Third, it discusses the federal role in urban school finance and explores and outlines some of the major questions under consideration by the HEW School Finance Project--a study mandated by the Education Amendments of 1978. Finally, it uses financial data gleaned from the "NSBA Survey of Public Education in the Nation's Urban School Districts, 1979" to analyze and address current fiscal realities such as the fiscal status of urban boards, expenditures, and federal assistance. (Author/CMG)

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REPORT ON

URBAN SCHOOL FINANCE:
PROBLEMS AND PROSPECTS FOR THE 1980's

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FOREWORD

In recent years, attention has been focused on the trend toward tax and spending limitations in many parts of the United States. Property tax limitations have had a severe impact on public education in several states. Public education has been affected in those states ways that other public functions have not.

The impact of these "tax reform" efforts are felt in all types of public school systems. But they perhaps more keenly impact urban school districts because it is there that the density and heterogeneity of the student populations is greater as well as the place where a much higher proportion of disadvantaged students reside. Thus, the cutbacks tend to hit hardest in the areas of greatest need.

This report has sought to identify and highlight those areas and contributory factors that are directly influenced by the levels of financial support in urban school districts. It summarizes the role of the states in meeting these unique needs through a variety of approaches. It takes a look at the role of the courts in this area in an analytical section written by Professor Floyd G. Delon. This should be informative to the readers because each year court cases are focusing on new issues, broadening earlier interpretations of state law, and responding to new influences that are likely to affect litigation strategies and outcomes in the future. The report also presents the findings of a longitudinal survey of urban school districts and the fiscal realities they have faced over a selected period of time.

As in all efforts that attempt to identify trends, this report deals with past data. How the facts that are collected and analyzed in this report will affect future events are not certain. However, even in the fiscal world as one peers into the future and tries to ascertain where we are headed, it is of enormous benefit to know where we've been.

Thomas A. Shannon
Executive Director

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ACKNOWLEDGEMENT

This report has been almost two years in production. And concurrent events in Washington and in many of the states where Council member districts are located make pertinence elusive. The Study Committee recognizes that the information included will be in constant need of updating, but is presented as background and analysis of the status of financial realities in the urban public schools as of today. Continuous examination and implementation of effective fiscal practices, and the development of political strategies to assure the financial soundness of school systems in the urban areas are essential goals toward which we all must strive.

On behalf of the Committee, I would like to express my appreciation to Dr. Jeremiah Floyd and his associates at NSBA, without whom the report would have been impossible.

Virginia P. Rockwell

Virginia P. Rockwell
Chairman
January 1981

URBAN SCHOOL FINANCE:
PROBLEMS AND PROSPECTS FOR THE 1980'S

I. Overview

Education is primarily a state responsibility. Public elementary and secondary schools are still supported largely by local property taxes. Recently, however, there have been some dramatic changes in several states.[1] This is true in the general sense for all public schools and equally true for the particular class of schools under discussion here --urban schools. Yet, the set of public policy issues related to equitable and efficient financing of the elementary and secondary schools of the fifty states continues to be dominant points of debate in many state legislatures.

Nearly all states, with the assistance of federal funds, are in the process of studying or evaluating their elementary/secondary education finance and tax structures. The Council of Urban Boards of Education, whose membership extends to the sixty-five school boards serving communities with a core city population of at least 200,000 or a student enrollment of 40,000 or more with a core city population of at least 175,000, has a direct interest in state deliberations and actions regarding school finance since its membership covers at least 30 of the 50 states plus the District of Columbia. This interest exists because of the many problems and issues which these urban districts face on a continuing basis, among which are:

- Rising costs due to inflation, energy demands, and other factors;
- Aging plants and facilities in need of constant repair or replacement;
- Changing demographics in urban areas and aging populations which have a direct bearing on the wealth of the areas;
- New populations migrating to urban areas such as Indochinese, Cuban, Haitian and other refugees who bring with them unique needs for economic, educational and other services; and
- Variations in assessment practices which also affect the amount of available revenue to support the schools.

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[1] In California, for example, as a result of the passage of the Jarvis-Gann Initiative (Proposition 13) in June 1978, state aid for schools currently approximates 80 percent with local property tax support amounting to an estimated 20 percent. In the preceding year, 1977-78, state aid was approximately 40 percent while local support was at 60 percent.

This publication has been developed around the following major sections:

- It reviews the role of the states in Urban School Finance using published materials and documents from the Education Commission of the States. It treats a number of topics summarizing findings from the unique perspective of the state level of education finance activity and provides a brief summary of these;

- It discusses recent developments in Urban School Finance litigation and provides an up-to-date synopsis of the role of the courts in that regard;

- It discusses the Federal role in Urban School finance and explores and outlines some of the major questions under consideration by the HEW School Finance Project--a study mandated by the Education Amendments of 1978 (P.L. 95-561). It does not offer any definitive conclusions here as the study is currently underway and the final report and recommendations are not due to be completed until December, 1981; and

- It uses the financial data gleaned from the NSBA Survey of Public Education in the Nation's Urban School Districts, 1979 to analyze and address the issues attendant to current urban school fiscal realities.

The design of the document provides for a brief summary at the conclusion of each section and a final section which provides an overall summary, conclusions and recommendations.

A bibliography appears in the appendix for further reference purposes.

II. Role of the States in Urban School Finance

Through constitutional mandates, state governments have the major proprietary role in this nation's educational system. Despite recent trends toward increasing federal support at the local level, state legislatures remain the principal legal entities for funding public schools. Boards of education are delegated authority by the state to govern schools locally. Thus, they have local control over the schools. But by definition, states retain the ultimate responsibility for the educational program, and this overseer status is both recognized and respected by urban school board members.

In recent years, those responsible for state educational appropriations have attempted to develop strategies for dealing with desegregation, inflation, declining enrollments and other problems commonly found in metropolitan areas. One such maneuver has been the establishment of a guaranteed level of state aid, usually based upon an amount designated during a prior funding period. This has greatly assisted urban districts with decreasing student populations and increasing losses of instructional and support services. Other strategies for effectively handling urban problems have come in the form of varying equalization

formulas, property tax relief, and financial compensation for certain education programs. State governments are also beset with many of the same financial limitations as municipalities, hence, legislatures have begun to set restrictions on revenue increases. Urban as well as state planners fully recognize the uncertain future awaiting school finance programs. This recognition has led to a measure of uneasiness in urban-state relationships.

The remainder of this section presents an overview of current state financing strategies.* The data highlight the patterns followed by state governments in dealing with crucial funding considerations, including per-pupil expenditures, equalization approaches, state compensation, and property assessment procedures. Through a study of this overview it is hoped that urban board members will gain a better understanding of the current state role in urban school finance.

Outlined below with selected comments, is the current status of the states' role in urban school finance with respect to:

Estimated Expenditures Per Pupil ADA (1977-78)

Under $1500	$1500-1750	$1750-2000	$2000-2250	$2250-2500	$2500-2750	Over $2750
Ala.	Arizona	Calif.	Ill.	Conn.	N.J.	Alaska
Ark.	Indiana	Colo.	Mass.	Del.		Iowa
Georgia	Ky.	Florida	Minn.	Md.		N.Y.
Idaho	La.	Hawaii	Mont.	Penna.		
Miss.	Maine	Kansas	Oregon	Wisc.		
N.H.	Mo.	Mich.	R.I.			
S.C.	Nevada	Neb.	Wash.			
Tenn.	New Mex.	Ohio				
Texas	N.C.	Virginia				
Utah	N. Dak.					
	Okla.					
	S. Dak.					
	Vermont					
	W. Va.					

AVERAGE: $1874.39
RANGE : $1331 (Georgia) - $3784 (Alaska)
Wyoming information unavailable

Equalization Approach

The two basic approaches to equalization include a Foundation Program and a Guaranteed Tax Base. Thirty-four states list a Foundation Program, twenty-one states feature a Guaranteed Tax Base, and five states include both approaches to equalizing expenditures.

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* Information taken from "School Finance At A Fourth Glance - May 1979." Denver, Colorado: Education Commission of the States, May 1979.

For those states utilizing a Foundation Program, seven have been based on Teacher Unit. These states have a range from $15,582 to $34,167 per Teacher Unit (also known as classroom unit and instructional unit). Approximately twenty-two states have established a per-pupil expenditure as the foundation unit, with a wide diversity of outlay.

States which employ a Guaranteed Tax Base for equalization generally analyze the property valuation per pupil in the district.

Other equalization methods include allowances for prior year funding and teacher salaries.

Measure of Local Ability to Support Schools

The basic measure of local ability to support schools, as used in 37 states, is the property valuation per pupil.

State Aid Program Compensation

- Grade Level Differences

  Twenty-five states reported differential aid components corresponding to grade levels. Weighted categories included kindergarten, special education and high school students. State aid is generally calculated on classroom units or pupil units.

- Exceptional Education

  Every state makes some sort of compensation for exceptional education programs. Compensation is provided in a variety of methods, including teacher salary, teacher positions and excess cost allowances.

- Compensatory Education

  Twenty-one states have instituted aid programs for economically and educationally deprived youngsters. Aid is awarded to school districts to support programs for learning handicapped, orphans, Title I recipients, and AFDC-eligible students. In addition, certain states provide additional compensation for programs for low-academic achievers.

- Bilingual Education

  Seventeen states have compensation programs for Bilingual Education.

- Density/Sparsity or Small Schools

  Twenty-eight states have provisions for compensation to smaller or sparsely populated districts.

- Declining Enrollment

  Thirty states have instituted programs designed to compensate districts for enrollment decline. Eight states guarantee that allocations will not drop prior year expenditures.

Capital Outlay and/or Debt Service

All states have limits for bonded indebtedness except Alaska and Hawaii. The majority of these states set these limits according to a percentage of total property value. The average of these bonding limits falls between 6-10 percent.

Transportation

All states pay at least the majority of transportation costs. Within specified restraints ten states now support transportation costs in total.** Most set varying eligibility requirements based on distance from school and student grade level.

Non-Public Schools

Nineteen states offer some support to their non-public schools. This support generally comes in the form of income tax deductions, books, transportation and appropriations for special education students.

State Mandates Restricting Revenue/Spending Increases

Twenty-one states present a limit on revenue increases, generally between 6-10 percent.

Property Assessment Ratios Used to Adjust Valuations For School Funding Purposes

Thirty-two states utilize property assessment ratios to adjust valuations while fourteen do not. The remaining states have formulae designed to provide uniformity in assessment practices, but frequently these provisions are not followed by county assessors.

Legal Standards For Property Assessment

Seventeen states make assessments based on the full and true value of property. The remainder utilize varying percentages of full value in assessment calculations.

** They are: Alabama, Alaska, Delaware, Kansas, Maine, Maryland, New Mexico, Oklahoma, South Carolina and Utah.

Property Tax Relief

Thirty-three states have instituted property tax relief measures. These are usually directed at homeowners who are over 65, or those falling below a specified income.

Summary

While the primary responsibility for the public schools resides with the state, there is much variability among states with respect to expenditures per pupil. And, to most observers, equalization approaches are still in the infant stage. And although all states have programs designed to provide added funding for exceptional education programs, there remains a wide margin in the efforts which these state aid programs provide when a number of specific factors are taken into account.

The legal basis for equalization approaches is discussed further in the next section.

III. School Finance Litigation--The Role of the Courts*

Introduction

That many school systems, especially urban systems, have severe financial problems is common knowledge. Among the most obvious contributing factors are economic inflation producing increased costs for education as well as other governmental services, declining enrollments resulting in reduced state financial support, taxpayer resistance in the form of levy defeats and tax limitation provisions, and the dramatic increases in legislatively and judicially mandated services. The very nature of these factors accounts, at least in part, for the existence or persistence of financial problems even after a decade of unprecedented attention by both the courts and legislative bodies.

School finance litigation covers a diverse and complex collection of topics which a brief paper could not begin to treat adequately.[1] For this reason, the focus here is restricted to case law dealing with challenges to state financing systems, cases in which the central issue is inequalities in the distribution of school revenues.[2] These judicial opinions and orders and the subsequent legislative responses provide insight into the role of courts in school finance reform.

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* At the request of the Committee, this section was written by Dr. Floyd G. Delon, Professor of Educational Administration, University of Missouri-Columbia.

Challenges to State Financing Systems

The public schools of forty-nine states (Hawaii being the only exception) derive their operating revenues from financing systems based on local, state, and federal sources. In many states the greatest proportion of the funding comes from the local property tax. Consequently, since the property wealth varies markedly from district to district, the money available for the education of each pupil also differs significantly. For the most part, state foundation formulae used to allocate state funds among districts fail to alleviate the discrepancies.

Because of these differences in available revenues, the equal protection clauses of state and federal constitutions have served and continue to serve as a basis for challenging state financing systems. In 1973 the focus shifted from federal to state constitutional provisions as a result of the United States Supreme Court's holding in San Antonio Independent School District v. Rodriguez.[3] By a 5-4 vote, the court held that the Texas school financing system did not violate the Fourteenth Amendment.

The Rodriguez majority reasoned that under the federal constitution education was not a fundamental right implicitly or explicitly guaranteed. Secondly, there was no identifiable class of citizens that was discriminated against by being denied education on the basis of their wealth, a "suspect" classification. The presence of these elements requires the courts to apply the "strict scrutiny" standard of review under which the financing scheme could be justified only by some "compelling" interest. Since the challengers failed to establish either a fundamental interest or a suspect classification, the court applied the less stringent "rational basis" standard. The court found that rational basis in the state's desire to maintain a degree of local autonomy.

State courts have employed this rationale to consider similar arguments under state equal protection clauses.[4] In fact, in 1971, it was in the ground-breaking case, Serrano v. Priest,[5] that the plaintiffs first expressed the fundamental rights/suspect classification argument to support their contention that a financing system that made the quality of a child's education a function of the wealth of the school district of residence violated the equal protection clause of both the state and federal constitutions. The trial on the merits of the case, coming after Rodriguez, resulted in a holding that the financing system was invalid solely on state constitutional grounds. Accepting the contentions that both a fundamental interest and a suspect classification were involved, the court held that the state had shown no compelling interest served by the system.

Throughout the 1970's in California, further litigation followed legislative changes and in 1976 the state supreme court declared the new system unconstitutional.[6] The case could well be reopened, as failure of the state to comply with the court order is now being alleged. Among other things, this order sets a $100 limit on the permissible differences in per pupil expenditures among districts exclusive of categorical expenditures.

In other states, the courts struck down financing systems as violative of education provisions of the state constitution. An early example is Robinson v. Cahill[7] decided in 1974. In its opinion, the New Jersey Supreme Court declared that the state's financing system violates the mandate to provide "thorough and efficient" education. The court directed the legislature to provide the education "needed in a contemporary setting to equip a child for his role as a citizen and as a competitor in the labor market." In 1976, the court lifted an injunction against a new financing plan after the legislature enacted an income tax assuring full funding.

More recent examples of similar challenges were the successful suits in Colorado and West Virginia in 1979. In the Colorado suit, Lujan v. Colorado State Board of Education,[8] the court held that the financing system violated state and federal equal protection as well as the state's "thorough and uniform" provision. After vacating a lower court judgment dismissing the case, the West Virginia Supreme Court of Pauley v. Kelly[9] directed the state to demonstrate that it provided "thorough and efficient" education.

Specific aspects of the financing systems failed judicial challenges in other states. In Washington, the reliance by the state on special excess levies, voted at the local level, was found to violate the constitutional mandate to provide a "general and uniform system of public schools."[10] Similarly, the Wisconsin Supreme Court negated the legislature's efforts to remove property wealth as a factor in determining the amount of per pupil expenditures.[11] Under the new financing system, districts spending in excess of a state's established ceiling were required to pay a portion of their property tax revenues into the state's general fund. This "negative aid" provision violated the constitutional requirement that "[t]he rule of taxation shall be uniform. . . ."

A new dimension arose in a challenge to the Ohio school financing system. After lower courts had held that this system was unconstitutional under the equal protection clause and the benefit clause of the state constitution, the state supreme court reversed the judgment.[12] The Cincinnati school board appealed to the United States Supreme Court charging that by ignoring the findings of fact by the lower courts, the state supreme court violated Fourteenth Amendment due process, equal protection and privileges and immunities clauses. This petition for review was denied.

An early basis for challenging financing systems, the "educational needs" rationale has recently resurfaced. In dismissing the 1968 McInnis v. Shapiro[13] case, the courts appeared to have eliminated the chances for successful claims on this ground under the federal constitution. Rejecting the argument that the Fourteenth Amendment requires that expenditures be made only on the basis of pupils' educational needs, the court concluded that the controversy was nonjusticiable. There are, said the court, "no discoverable and manageable standards by which the court can determine when the Constitution is satisfied and when it is violated."

The recent reliance on "education needs" is expressed in terms of "municipal overburden." In the 1978 case, Danson v. Casey,[14] the Philadelphia school system was one of the plaintiffs in a suit to

enjoin the implementation of the state subsidies programs for public schools. The plaintiffs charged that the factors of the state aid formula because they were unrelated to the costs of maintaining a thorough and efficient system, violated constitutional equal protection requirements. Consistent with McInnis the court noted: "This controversy is presented to us solely within the context of educational needs of school children, a classification which we deem nonjusticiable."

The breakthrough in this regard came in 1978 in Board of Education, Levittown v. Nyquist.[15] In agreeing that the New York financing system offended both state education and equal protection provisions as well as the federal equal protection clause, the court accepted the educational needs argument. The court said:

> Despite the fact that large city school districts have grossly disproportionate numbers and concentrations of pupils who are deficient in basic skills, the state aid system provides them with reduced aid per pupil and reduced aid per special needs pupil. The formulation by which aid is provided is intended to assure equal educational opportunity throughout the state by distributing aid in proportion to the districts' need.

In conclusion the court continued: "A failure to do so . . . is tantamount to excluding those many under achieving pupils from the educational program."

Concluding Observations

The courts have served as a catalyst[16] in bringing about changes in the way public education is financed and in how these financial resources are used. In some instances this role might be described as that of a policymaker[17] or an overseer. It has been the state courts that have precipitated changes in the area of school finance reform. (As of this date, there is no definitive federal court decision striking down a state financing system.) Eliminating inequalities in the distribution of available financial resources is a vital first step in accomplishing the legally mandated goal of equality of educational opportunity. However, unless additional financial resources are provided to meet new demands and increased costs, quality public education is likely to exist for no one. The task of dealing with this problem is not that of the courts. As Justice Powell said in the Rodriguez opinion: ". . . [T]he ultimate solutions must come from the lawmaker and from the democratic pressures of those who elect them."

End Notes

1. See the "Finance" chapter in Yearbook of School Law published annually by the National Organization on Legal Problems of Education (NOLPE) which presents the full spectrum of school finance litigation.
2. See Update on State-wide Finance Cases published annually by the Lawyers' Committee for Civil Rights Under Law. (Washington, D.C.)
3. 411 U.S. 1 (1973).
4. See e.g. Horton v. Meskill, 376 A.2d 359 (Conn. 1977); Northshore School Dist. v. Kinnear 530 P.2d 178 (Wash. 1974).
5. 487 P.2d 1241 (Cal. 1971).
6. 557 P.2d 929 (Cal. 1976).
7. 330 A.2d 273 (1973).
8. District Ct. of Denver Cty., C.A. No. C-73688 (1979).
9. 255 S.E.2d 859 (W. Va. 1979).
10. Seattle School Dist. No. 1 v. State, 585 P.2d 71 (Wash. 1978).
11. Buse v. Smith, 247 N.W.2d 141 (Wisc. 1976).
12. Board of Educ. of City of Cincinnati v. Walter, 58 Ohio St. 368 (Ohio 1979) cert. denied, 48 U.S.L.W. 3425 (Jan. 8, 1980).
13. 293 F. Supp. 327 (N.D. Ill. 1968) aff'd, 394 U.S. 322 (1969).
14. 382 A.2d 1238 (Pa. 1978).
15. 408 N.W.S.2d 606 (N.Y. 1978).
16. See The Law: Catalyst for Educational Reform, 82 School Review (1974) for articles examining the status of school finance reform at that time.
17. For a comprehensive discussion of the role of the courts see Levine, The Courts as Educational Policymakers and Their Impact on Federal Programs (1977). This work is a report of an HEW funded project published by Rand Corporation.

IV. The Federal Role in Urban School Finance

This section provides an overview of the federal role in urban school finance. However, it should not be assumed that there is a differential because of the urban factor between urban and non-urban schools. Such has not been confirmed to be the case. At least one major study[1] is currently underway, the outcome of which may provide some insight into the degree of difference between the federal role in urban finance and other types of school districts if any exist. The discussion which follows, therefore, proceeds from the common base of the federal role in all school finance.

Under current policies and programs the federal share of funding for elementary and secondary schools is about eight percent. A recent study of the membership of the Council of Urban Boards of Education reveals a wide range in the role of the federal contribution to school district expenditures. The urban district, however, is not substantially different from the national average. And in all cases these funds are allocated through grant-in-aid programs. The following historical synopsis provides a perspective that might be helpful.

But in looking to the future impact of the federal role in school finance and beyond just looking at the current grant-in-aid programs, we return to the aforementioned HEW study:

Prior to 1965

Prior to 1965, the federal role in education was quite limited. For elementary and secondary education, it consisted of several grant programs within HEW's Office of Education.[2] Of these, the primary programs were the Vocational Education Act, Impact Act, and the National Defense Education Act.[3] All three programs exist today, and the roles they played in 1965 are summarized below.

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[1]The HEW School Finance Project, mandated by the Education Amendments of 1978 (P.L. 95-561), is a three-year study of the financing of elementary and secondary education in the United States. It will address a wide range of concerns, including the outlook for financing of education during the next decades, the equity of present and alternative distributions of educational resources and costs, the relationship between financing and the substance of education, as well as present and future federal roles in school finance. Interim reports were scheduled for December 1979 and 1980 with a final report scheduled to be issued in December 1981.

[2]In terms of dollars, Office of Education funding for all elementary and secondary programs was $325 million in FY 1961 and $582 million in 1965.

[3]In 1965 the appropriations for these programs were as follows: VEA, $173 million; Impact Aid, $390 million; and NDEA, $97 million.

a. Vocational Education Act

The Vocational Education Act is a large grants-in-aid program to the states, which in turn must redistribute funds to local school districts. The 1963 law consolidated what had been a fragmented federal role. The main purpose was to encourage states to establish a conceptual approach to vocational education as distinguished from categorical occupational training courses in specific areas. While vocational programs are considerably more expensive than academic programs, general classroom support was not the primary purpose of the 1973 Act.

b. Impact Aid

Impact Aid is a direct federal-to-local program to compensate local school districts for the fiscal burden which the federal presence places on school systems. A typical example is the federal government's establishment of a military base in a school district. In such cases, the federal "business" not only removes land from the local tax base, it also attracts additional people to the community whose children the school district must educate. The formula for funding Impact Aid was based on the number of students added to the local school district's rolls as a result of the federal presence. Since the funds were, in essence, in lieu of tax payments, the money could be used as general aid.

c. The National Defense Education Act

The National Defense Education Act began in reaction to Russia's launching of the satellite Sputnik. It is an equipment and remodelling program with special emphasis on mathematics, science, and language instruction. A separate portion of the program is earmarked for guidance counseling and testing.

1965: ESEA and the Civil Rights Act of 1964

In 1965, the enactment of the Elementary and Secondary Education Act dramatically increased the federal involvement in education.[4] The cornerstone program of the Act was ESEA Title I, aid for economically disadvantaged children.[5]

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[4]For FY 1966, Office of Education appropriations for Elementary and Secondary programs tripled over the previous year to about $2 billion. $959 million of these funds were appropriated for disadvantaged children.

[5]More precisely, in 1965, Title I of ESEA consisted of the previously enacted Impact Aid program. Within Impact Aid, a new "impact" was added to assist school districts with high concentrations of poor children. In 1968, the disadvantaged component was designated ESEA Title I and the remainder of Impact Aid was restored as a separate law.

ESEA Title I is funded on a local entitlement basis, much like Impact Aid. That is, each local school district receives a portion of the national appropriations equal to the relative number of disadvantaged children residing within the area. Unlike Impact Aid, since Title I was designed to meet special needs, Congress imposed certain conditions on the use of Title I funds. Title I is the major federal education program. Appropriations for Title I are now about $3 billion.

Other components of ESEA enacted in 1965 consisted of state grant programs for libraries, special projects to encourage innovation in education, and aid to strengthen state departments of education.

1965 also marked the implementation of the Civil Rights Act of 1964. In part, that legislation recognized that an active federal role would be required in order to effectively desegregate the schools. The impact of this new area of federal involvement was at first confined exclusively to the South.

1965 to 1970: More Programs and Funding Expansion

During the late 1960's, federal commitments were undertaken to provide funding for other categories of children with special needs. Like Title I, the underlying theory was that in the absence of national leadership, the high-cost needs of certain children would continue to be beyond the political and economic reach of the local property tax base. Specifically, programs were begun in the areas of bilingual education, drop-out prevention, and the education of the handicapped.[6]

During this same period of time, the federal role in education became established to the point that the federal government was providing 7 percent of the cost of educating the nation's public school children. Until the last year or two, when federal payments for elementary and secondary education rose to slightly over 8 percent, the 7 percent figure remained rather stable, as states and localities continued to increase their contribution to elementary and secondary education. In FY 1970, federal contributions for elementary and secondary education rose to $2.7 billion.

The 1970's

During the early 1970's, there were several major events that substantially expanded the federal role in education. Individually and together, these events have worked to raise a voice of concern for the federal control of education.

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[6]By 1971 these programs were incorporated within ESEA. With respect to the handicapped programs, funding in 1961 was $1 million and in 1968 grew to $28 million. These were mostly informational programs including teacher training and research and innovation. The new basic grants program added $2.5 million in 1967, $30 million in 1969, and became the basis of the current $804 million law.

The first was enactment of the Emergency School Aid Act, which targets money to local school systems that are undergoing either voluntary or court-ordered desegregation. The purpose of ESAA is to provide assistance to school systems to improve classroom instruction in desegregating districts. The second event, another program, is the Education for All Handicapped Children Act, which includes grant programs to help school districts provide specialized programs for physically or emotionally handicapped children.

While both of these programs have been helpful in terms of assisting children, they demonstrate the deepening federal involvement in the management of local school systems. For example, many school systems applying for funds under ESAA have found their applications subject to curriculum review by HEW's Office for Civil Rights. And unlike other grant programs (which do not require federal curriculum approval), rejected school districts have found that they could not merely withdraw their applications. Rather, they found that unless they admitted fault and changed their curriculum design, they risked losing all of their other federal funding under the Civil Rights laws--as a result of voluntarily applying for funding.

Likewise, the handicapped law sets forth very specific procedures to guarantee rights of parents and students in the program. As a result, the law negated parallel or equivalent procedures that the states and localities may have had in effect. The point is that, just as the Emergency School Aid Act carries with it much deeper federal involvement in the area of curriculum, the Education for All Handicapped Children Act carries with it much deeper federal involvement in the management process by which local school systems determine the placement rights and program design for students.

Related to the above programs, a third event placing federal control pressures on school systems is the expansion of HEW's areas of Civil Rights enforcement. That is, in addition to ending discrimination on the basis of race, during the 1970's the scope of civil rights efforts within HEW broadened to include discrimination on the basis of sex, handicap, and language barrier. Especially in the area of language barrier, curriculum control has been a very sensitive issue. More precisely, school systems have found themselves pressured into providing bicultural instruction even though they sought intensive English instruction as the remedy.

In its first preliminary report, the HEW School Finance Project acknowledges that the federal government affects school finance in several other ways. It states that:[7]

- Many requirements of federal programs (e.g., matching requirements and non-supplanting and comparability rules) influence or constrain the use of state and local funds as well as the uses of federal grants;

[7]The HEW School Finance Project, p. 54.

- Federal service mandates and civil rights requirements affect the distribution of large amounts of state and local money (for instance, the number of non-federal dollars reallocated in response to the Education for All Handicapped Children Act may be of the same order of magnitude as the aid provided under ESAA Title I--the largest federal education grant-in-aid program); and

- Federal income tax deductions allowed for taxes paid to state and local governments and for contributions to private schools constitute implicit multimillion dollar subsidies to elementary and secondary education--albeit non-public.

All these elements will be taken into account by the HEW School Finance Project in assessing the federal role in school finance.

Among other significantly important topics that the study project will examine are:

- Aggregate support--Do current federal policies tend to affect total state and local outlays for elementary and secondary education? And if so, to what extent and degree?;

- Interstate distribution--How do federal policies affect the distribution of educational resources and costs among the states? (Note: Urban Council Boards of Education are located in 31 of the 50 states.);

- Interdistrict distribution--How do federal policies affect interdistrict disparities, inequalities among different types of districts? (This is a question of significant interest to urban boards.);

- Allocations to target groups--How do federal policies affect the resources devoted to such groups as the disadvantaged, the handicapped, members of minority groups, and those with limited English proficiency?;

- Tax equity--What is the effect of federal policies on the distribution of school tax burdens among households of different income and wealth?;

- Services and governance--What effect do federal policies have on the level and nature of the services offered to students and what effect do they have on the organization and control of the educational system?; and

- Private schools--How do federal policies aimed at the public sector but with certain tax policies affect the enrollments, finances and services to private schools?

All of these questions and their answers have a direct relationship to the current and future role of the Federal Government in Urban School Finance. This ad hoc committee hopes that the outcomes of the HEW study

will provide a clearer view of the special function of the federal role in urban school finance. We likewise hope that from these results, positive alternative strategies can be developed by those concerned with urban schools and their financing that will influence Urban Federal Financial Policy in the direction best suited to meet urban needs.

V. Urban School Fiscal Realities

Introduction

The Triennial NSBA Survey of Public Education in the Nation's Urban School District contains a significant section on metropolitan school finance. The survey reaffirms the trend toward declining enrollments, a phenomenon which has continued in districts of all sizes since the early 1970's. It also reveals an increase in urban education budgets. It shows that expenditures have risen in response to rising per-pupil instructional costs and capital outlays. In 1977-78, 55 of the urban school districts spent more than 12 billion dollars on instructional, capital and operation costs to provide educational opportunities for 6.4 million students--nearly twice the amount of money that 43 districts spent in the 1972-73 school year. The average per-pupil instructional expenditure in these 43 responding cities in 1972-73 was $907. By 1977-78, the average per-pupil instructional outlay had risen by almost 50 percent, to $1,356.

In an effort to place the survey results in an historical perspective as well as highlight current fiscal realities, NSBA staff compared 1977-78 data with similar information collected in previous triennial surveys. Presented below, these comparisons offer a clear picture of the rapidly rising costs of urban education. No information is given on fiscal decisions that were made as a consequence of these rising costs.

After discussing the districts' fiscal status, the information below presents expenditure relationships in the area of instructional, capital and non-instructional outlays. It concludes with some comments on the federal contribution in urban school finance.

Fiscal Status of Board

As is indicated from the consistent percentages which appear below, there has not been much variation in the fiscal status of urban boards of education in the past ten years. Those districts which enjoyed economic independence from local governments a decade ago appear to rely on the same financial structure today, with similar results reported for fiscal dependents.

FISCAL STATUS	1967-68	1970-71	1973-74	1977-78
Independent of local governments	76% (37)	76% (38)	73% (37)	74% (43)
Dependent on local governments	24% (12)	24% (12)	24% (12)	26% (15)
Partially dependent	0	0	3% (2)	0
Number of districts responding	49	50	51	58

Instructional Expenditures Per Pupil

School districts appear to have spent a significantly greater amount per pupil in 1977-78 than in preceding years. Survey results point to an approximate 20 percent annual increase in per-pupil expenditures during the 1968/69 - 1972/73 years, while the jump between 1972/73 and 1977/78 approximated 50 percent.

EXPENDITURES PER PUPIL	1968-69	1970-71	1972-73	1977-78
$2,300 - $2,500	0	0	0	2
$2,100 - $2,299	0	0	0	3
$1,900 - $2,099	0	0	1	3
$1,700 - $1,899	0	0	0	6
$1,500 - $1,699	0	0	1	4
$1,300 - $1,499	0	0	6	7
$1,100 - $1,299	1	0	6	6
$ 900 - $1,099	1	8	3	17
$ 700 - $ 899	9	21	9	7
$ 500 - $ 699	25	17	16	0
$ 300 - $ 499	9	4	1	0
$ 100 - $ 299	0	0	0	0
Number of districts responding	45	50	43	55
Average per-pupil instructional expenditure	$626	$752 (+20%)	$907 (+21%)	$1356 (+50%)

Total Instructional Expenditures

As reported above, the ten-year figures for total instructional expenditures revealed a steady increase in spending despite a consistent pattern of declining enrollments. In presenting this information, an attempt was made to describe the significant skewing effect exerted by New York City on the average expenditures. With nearly twice as many students as any other district, New York has consistently spent over one billion dollars on instruction, and topped the two-billion-dollar level in 1972-73.

TOTAL INSTRUCTIONAL EXPENDITURES	1968-69	1970-71	1972-73	1977-78
Over $1 billion	1	1	1 (N.Y.-over $2 billion)	2
$500 million - $ 1 billion	0	1	1	1
$300 - 500 million	2	2	2	1
$250 - 300 million	0	0	0	2
$200 - 250 million	2	1	2	2
$150 - 200 million	1	3	2	3
$100 - 150 million	4	5	6	9
$ 75 - 100 million	4	9	8	14
$ 50 - 75 million	18	11	9	13
$ 25 - 50 million	15	16	13	7
$ 10 - 25 million	3	1	0	0
Total # of districts	50	50	44	54
Total instructional expenditures	$5.26 billion	$6.33 billion	$6.77 billion	$9.21 billion
Average instructional expenditures	$105.16 mil ($77 mil excl. NY)	$126.6 mil ($91.0 mil excl. NY)	$147.2 mil $107.1 mil excl. NY)	$170.5 mil ($137.9 mil excl. NY)

Capital Expenditures

One statistic over which declining enrollments exert major influence is capital expenditures. Financial outlay for construction noticeably declined with the onset of the 1970's. There was, for the same period, a decreasing number of students in the schools. Although capital expenditures have largely remained steady throughout this decade, they do not approach the level of spending achieved during the "boom" period of the 1960's.

CAPITAL EXPENDITURES	1968-69	1970-71	1972-73	1977-78
Over $100 million	1	1	0	1
$50 - 100 million	3	2	0	2
$25 - 50 million	6	5	2	4
$10 - 25 million	8	5	6	11
$ 5 - 10 million	9	9	12	9
$ 1 - 5 million	16	17	18	16
$500,000 - 1 million	1	4	2	3
$250,000 - 500,000	2	1	4	3
Below $250,000	1	3	0	0
Total # of districts	47	47	44	49
Total capital expenditures	$959.13 million	$740.93 million	$756.23 million	$762.6 million
Average capital expenditures	$ 20.41 million	$ 15.76 million	$ 17.19 million	$ 15.56 million

Non-Instructional Expenditures

Although data was not available from past years, it is not illogical to assume that inflationary trends within the nation's economy have increased the percentage of the total budget consumed by non-instructional expenditures. While there is some inflation in the range of figures presented below, most districts surveyed estimated that their non-instructional costs hover at the $50 million level, and represent between 20-25% of the total school budget.

NON-INSTRUCTIONAL EXPENDITURES, 1977-78	NO. OF DISTRICTS
Above $250 million	1
$200 - 250 million	1
$150 - 200 million	1
$100 - 150 million	2
$ 75 - 100 million	4
$ 50 - 75 million	7
$ 25 - 50 million	17
$ 10 - 25 million	13
$ 5 - 10 million	2
$ 1 - 5 million	2
Below $1 million	1
Total # of Districts	51
Total Non-Instructional Expenditures	$ 2.85 billion
Average Non-Instructional Expenditures	$55.88 million

Money Received For Federal Programs

Urban school board members have long been aware of the growing federal help for education. Since 1958 and the enactment of the National Defense Education Act, Washington's support of local schools has increased dramatically. The figures below attest to the increasing federal involvement in urban school districts, as these areas continue to demonstrate a need for educational financial aid. Even within an atmosphere of fiscal austerity, Congress has considered it important to increase financial assistance to the country's metropolitan areas.

	1977-78	Increase over 76-77	No. of Districts	Average	Range
ESEA	$438 million	+ 7%	56	$8.63 million	$61,000-135 million
CETA	$ 28.7 million	+40%	17	$1.68 million	$ 8,405- 8.9 million
Impact Aid	$ 77.6 million	+ 9%	48	$1.62 million	$ 3,441- 17 million
ESAA	$ 77 million	+10%	37	$2.08 million	$21,000- 13.5 million

Summary

To conclude this section, it seems appropriate to look again in summary at those factors that have emerged about the current urban school fiscal realities. The response from the survey of urban school districts revealed the following:

- In regard to the fiscal status of urban boards, there is currently a 3-to-1 ratio of fiscally independent boards to fiscally dependent boards. That ratio has remained substantially unchanged during the past decade, 1968-1978;
- Instructional expenditures per pupil have skyrocketed during the decade of 1968-78. Average per-pupil instructional expenditures increased over 100% during the 10-year period;
- Total instructional expenditures have almost doubled during the 10-year period despite a consistent pattern of declining enrollment;
- Total capital expenditures as well as average capital expenditures have declined during the 10-year period, the latter by about 25%; and
- The amount of federal financial assistance to urban education as well as overall public education has increased dramatically over the past decade.

Thus, despite the economic upheavals of the past decade and the substantial enrollment decline experienced, urban educational leaders have managed to keep urban school systems in a relative position of fiscal soundness. Increased federal aid has been a definite help in that regard.

VI. Overall Summary, Conclusions and Recommendations

The role of the states in school finance continues to emerge and assume a dominant posture as specific and pressing issues are addressed. As more and more litigation makes its way through the courts, it is probable that pressures will grow for more state legislative and regulatory actions. Two major areas of concentration have been and will likely continue to be equalization of financial support for education, and state compensatory programs. At the same time, public pressure will continue to grow for governmental action to restrict revenue and limit spending.

The federal role in education generally and in urban education particularly has grown significantly since 1965 to include a complex array of grant-in-aid, civil rights protections, and federal employment programs. In addition, the increased federal role has had an indirect influence on local public education through its support for state departments of education--the regulatory state agency. There are some who opine that

federal assistance to state-level regulatory administration constitutes more than half of its cost--estimated to be over $100 million.

The ultimate challenge for urban school board members in the 1980's will be finding ways to acquire and use more state and federal funds to meet demands brought about by rising costs while at the same time maintaining control over local education policy.

The work of this committee and its findings have been limited to fact-finding--determining what the major urban issues are in school finance. Under such a limitation, it became clear early in the study that any recommendation for generating solutions, of necessity, would be aimed at identifying specific areas for further study. Accordingly, we recommend that the Council establish as a matter of the highest priority some mechanisms to address the following:

1. The development of a program for ensuring that urban board members are made aware of the most effective practices in financial management and fiscal policies that exist. Included should be:

    - Suggested strategies, listing pros and cons, for use of management audits to improve urban financial practices;
    - Investment strategies that can maximize the district's earnings on the use of its funds;
    - The fiscal impact of school closings and consolidation as measures for making urban school districts more efficient; and
    - Other techniques that have the potential to ensure that the urban school district makes the best use of available funds.

2. The development of a program for urban board members that enables them to better understand the roles of local, state and federal entities in funding public education and the political realities of each.

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ABOUT THE COUNCIL OF URBAN BOARDS OF EDUCATION

ORGANIZATION

Recognizing the unique responsibilities of public school board members serving the nation's largest cities, the NSBA Board of Directors in January 1967 authorized a special committee known as the NSBA Council of Big City Boards of Education. A nine-member Steering Committee composed of big city board members was elected in April 1967. Eleven years later, the Council membership changed its name to the Council of Urban Boards of Education. The Chairman of the Council serves as ex officio member of the NSBA Board of Directors.

Membership eligibility is extended to school boards serving communities with core city populations of at least 200,000, or a student enrollment of at least 40,000 with a core city population of 175,000 or more.

PURPOSE

The Council exists to enable school board leaders to gather information, develop recommendations, and take appropriate action to improve the quality and equality of education provided in densely populated cities containing widely varying kinds of people with diverse and heterogeneous backgrounds.

PROGRAM

Through its subcommittees and staff, the Council uses conferences, workshops, publications, newsletters, consulting services, telephone contacts, and other committees to improve the board members' own policymaking effectiveness. In conjunction with the NSBA Board of Directors, the Council serves as a vehicle for bringing urban board members and their viewpoints before federal officials and members of the Congress.

STEERING COMMITTEE

The Steering Committee is now composed of twelve people plus the Immediate Past Chairman. The Executive Director of the National School Boards Association and the President, Board of Directors, National School Boards Association, serve as ex officio members of this Committee. The Director, Urban and Minority Relations, NSBA Associate Executive Director, NSBA Office of Communications and Membership Relations, serve as staff liaisons.

The Committee members serve a three-year term upon election by the Council during the Council's Preconvention Meeting. The Council Chairman appoints a Nominating Committee Chairman to oversee the compilation of a slate of nominees from Council members in good standing. The Nominating Committee gives consideration to slating nominees so that a regional, sexual and racial balance on the Steering Committee might be retained.

The Council Chairman and Vice Chairman are elected by the Steering Committee at the first meeting of the Committee after the election of new Committee members.

Meetings of the Committee are held four times per year -- one prior to the Council's Annual Meeting; one during the fall in a Council member city; another in the winter in a Council member city; and one prior to the Council's Preconvention Meeting.

ABOUT NSBA....

The National School Boards Association is a not-for-profit organization whose primary mission is the general advancement of education through the unique American tradition of local citizen control. In this way, education policy is decided by board members who are directly accountable to the community. NSBA promotes the quality of education through services to state associations of local school boards and local school districts. It represents school board interests before Congress, federal education agencies and other national regulatory bodies. Active Members of NSBA include the 49 state associations of local school boards, the Hawaii State Board of Education plus the boards of education of the District of Columbia and the Virgin Islands. Founded in 1940, NSBA represents about 95,000 of the nation's school board members who, in turn, govern the schools attended by 97% of all public school children.

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